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HUD's Neighborhood Stabilization Program: The Experience in Raleigh, North Carolina

By Shawn McNamara, AICP

The Neighborhood Stabilization Program (NSP) has been an useful additional tool for Raleigh, N.C., to add to its redevelopment arsenal. Ushered in by the federal government at the close of the Bush Administration under the Housing and Economic Recovery Act (HERA) to address the burgeoning national foreclosure crisis, NSP was allocated by formula through the Department of Housing and Urban Development (HUD) to areas hardest hit by foreclosures.



The remainder of the funds were offered to the states to distribute among their municipalities and nonprofits. Raleigh applied for the funds in the statewide competition, was ranked first, and by March 2011 had spent or committed by contract the nearly \$3 million awarded it by the state Division of Community Assistance.

Raleigh's NSP funds are administered by its Community Development Department (CD). Since the late 1970s, Raleigh has pursued an aggressive redevelopment process transforming the older neighborhoods that ring the city's downtown. The traditional approach has been for the city's Planning Department to handle the creation of Redevelopment Plans and then CD steps in to implement the Plans

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A Post Fannie Mae/Freddie Mac World

by Nelson Hernandez

For 80 years, the federal government had steadily increased its presence in the housing finance market. In 2010, the federal government — through the Federal Housing Administration (FHA) and the Federal Housing Finance Agency (FHFA) and its conservator powers over Fannie Mae and Freddie Mac — effectively controlled over 90 percent of mortgage originations. It appears the days of growing federal presence are numbered and that

the federal government will wind down these government-sponsored enterprises over the next few years and reduce its role in the mortgage market. Quoting Yogi Berra, "... the future ain't what it use to be..." Before going into what's next, we should take a moment to review how we arrived at this point.

The foray into housing finance began under President Hoover with the creation of the Federal Home Loan Bank system

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using federal Community Development Block Grants and local housing bond funds. Most of the funds are used for acquisition, relocation, and demolition of blighted rental housing as land is assembled for new affordable ownership housing, in accordance with the Redevelopment Plans. Given this long history of transforming blighted, crime-ridden neighborhoods, NSP was an easy fit for Raleigh and CD.

The first question for CD was: where do we spend the funds? Every area of the city had foreclosures: old areas, new areas, single-family houses, townhouses, inner city, outer ring communities... The CD's Director charged the Strategic Planning Division to make a recommendation prior to the submittal of the NSP application to the state. Foreclosure data was available from national foreclosure tracking companies and Strategic Planning had GIS and mapping capabilities to display the foreclosures within the city. Staff already identified which zip codes within the city had the greatest number of foreclosures and so the three highest were selected for additional analysis. CD's four planners gathered around maps displaying the geocoded foreclosure locations in the city and looked, within the three selected zip codes, for clusters of such housing units not bisected by highways or natural features. A cluster was defined as a ¼-mile-diameter circle containing at least fifteen such units. As luck would have it, there were four, ranging from a post-World War II neighborhood of once-tidy brick ranch-style houses to new single-family detached houses. Field trips were taken to the four areas, and digital photographs of the foreclosed units were taken and then inserted onto the map showing the four clusters of foreclosures. Staff had the tools to engage in dialogue with the director over the new question: which of the four neighborhoods would be our NSP focus area if we get funded? The oldest neighborhood with the most problems and where it would be more difficult to sell the units once rehabilitated or replaced? The newest area



where there was only a need to make the units buyer-ready and the units we would buy would be surrounded by other new units? Or something in between? There were many discussions about the pros and cons, more field trips, more map-gazing, but in the end CD decided to stick to what it knew best: transforming neighborhoods in decline by strategic city investments that would result in ancillary private investment. We picked the oldest neighborhood closest to Raleigh's downtown, the thinking being this neighborhood has just started to decline (disinvestment, crime, homeowners selling to investors, etc.) and we could "catch" it before it got worse.

That was Fall 2008. Now, CD is marketing five rehabilitated NSP houses for sale through a local nonprofit, Raleigh Area Development Authority, Inc., and is in the first phase of a partnership with Habitat of Humanity of Wake County to sell five cleared NSP lots to Habitat to build new single-family homes with construction grants of \$75,000 per house from the city's NSP funds, and \$20,000 five-year forgivable mortgages for the new owners selected by Habitat. Two other cleared lots will be addressed in the future and a cleared site of a 12-unit blighted apartment building will become the location of a new apartment building to be constructed with NSP3 funds, as in early March 2011 the city was awarded this most recent incarnation of the program.

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in 1932. President Roosevelt expanded federal involvement in 1934 with the creation of FHA. FHA is credited with enabling the creation of the 30-year fixed rate mortgage. Under Roosevelt, the federal government took a third giant leap to increase the availability of the 30-year fixed-rate mortgage in 1938 when it created the Federal National Mortgage Association, better known as "Fannie Mae." The "GI Bill" of the 1940s, resulted in yet another federal housing finance initiative, helping millions of veterans become homeowners. In 1968, facing massive budget deficits the federal government privatized Fannie Mae and two years later created the Federal Home Loan Mortgage Corporation ("Freddie Mac") in order to compete with Fannie Mae.

Now let's fast forward to Sept. 7, 2008. On that day, the Federal Housing Finance Agency, an agency created in July 2008 to regulate Fannie, Freddie and the Federal Home Loan Banks, citing safety and soundness problems, placed both Fannie and Freddie into conservatorship. The U.S. Treasury owns 79.9 percent of their stock, effectively nationalizing both companies.

Okay, let's turn to what Obama proposed this February. To be clear, the Obama Administration did not propose a solution. Instead it presented Congress with three options. In simple terms – perhaps oversimplified – the Administration presented an option to fully privatize Fannie and Freddie with the government insurance role limited to FHA, Veterans Administration (VA) and

Greetings from the HCD Chair

Welcome to the members of the Housing and Community Development Division (HCD) and to our many associated friends. On behalf of Ryan Sherriff, HCD Vice-Chair and Annemarie Maiorano, HCD Treasurer, thank you for taking the time to read our newsletter. I hope you enjoy the it. Please share it with your friends and co-workers. I think this may be our best edition!

Here you will discover articles that matter to you, are about you and what you do to make great communities happen. Our newsletter is a unique resource — where else would you find articles about the Neighborhood Stabilization Program, the housing finance market and promoting affordability in transit-oriented development? That's right, nowhere else is the answer. The newsletter is a service to our members. I thank our contributors and of course our excellent editor, Mollie Doll.

In Boston, HCD will present our one by-right session. The session concerns how local governments are dealing with the foreclosure crisis. Please plan on attending. Speaking of attendance, you are also welcome to attend the HCD business meeting while in Boston. We would love to see you there. One highlight of the meeting will be the announcement of HCD research grant awards to graduate students. More on that in our next edition.

At this time point in the great recession, I think it's safe to say the tough economy has affected all of us either professionally or personally, directly or indirectly. Many of us have lost jobs, or experienced a reduction in compensation,



witnessed layoffs of friends, family or co-workers. Housing may be the industry most affected by this recession. And of course, the effects are not over. Housing finance, housing development, affordable housing and community development will all undergo change--on that we can count. What we cannot count on is the type of change. We are not helpless — there is something we can do to increase the probability of positive change. First, let's recognize change is coming.

To survive — no to thrive — we need to develop a positive message, stay on message, get our message out, develop strong bonds with new allies, and renew existing bonds. I encourage you to reach out to 10 of your friends, neighbors, and/or family members. Spend 15 minutes explaining the importance of affordable housing and community development. Because they are in your inner circle they will listen to you.

Further, look to strengthen your bonds to professionals in related fields, educate them and be willing to listen to them also. Last, if you are not a member of HCD, please join. If you are already a member but your coworkers are not, ask them to join.

The next few years may be the most pivotal in the history of housing and community development. Either way, change is coming.

The question is, do we attempt to influence the course of future events?

Nelson Hernandez

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the United States Department of Agriculture (USDA). This option would remove all implicit or explicit federal guarantees of Fannie/Freddie obligations. A second option is to keep the government FHA, VA and USDA programs and a guarantee mechanism during times of crisis in the housing finance market. Option three includes the FHA, USDA and VA guarantees and also provides for government reinsurance to backstop private capital. In addition to the three options, the Obama Administration suggested other changes such as lowering the maximum loan size Fannie and Freddie can purchase. Also, the Administration raised the possibility of raising the guarantee fees charged by Fannie, Freddie and the FHA to better reflect the risk these entities take in purchasing/insuring mortgages. Furthermore, Obama's team wants to return FHA to serving traditionally underserved markets. And last, Obama proposed to "wind down" Fannie and Freddie in an orderly fashion (five to seven years), strengthen consumer protections, improve underwriting standards, and increase transparency and accountability in the securitization chain. A tall order indeed!

This leads to many questions. Will mortgage financing

— particularly the 30-year fixed-rate mortgage — become more expensive? Will homeownership be more difficult to attain? In general, with stricter underwriting standards, it will be more difficult to qualify for a mortgage. Will this lead to lower homeownership rates? It may, but is that necessarily bad? Another major question is how big a void the absence of Fannie and Freddie will leave in terms of affordable housing. The two GSEs have historically and still currently provide much support for low- and moderate-income homeownership as well as workforce and affordable rental housing. In their absence, the market will need to adapt and sustain the supply of quality affordable homeownership and rental.

Clearly, this is an utterly complex and vital issue, which is why the Administration, Congress and the greatest minds in mortgage finance are currently working away relentlessly on this predicament. Hopefully, the solutions they create and implement will make for a stable and sustainable mortgage finance system in the future.

The article represents Nelson's private opinions and may or may not be the views of FHFA.

Building in Affordability to Transit-Oriented Development

By Rebecca Cohen and Emily Salomon

Working families often have the most to gain from access to low-cost transportation alternatives. However, land costs near planned stations often escalate rapidly in anticipation of new transit investments, and failure to build in affordability at the outset can make it extremely difficult and costly to preserve and expand housing affordable to working families along transit corridors.

Communities can employ several policies in the traditional affordable housing toolbox to ensure that affordability is “built in” to development within walking distance of new transit stations. With careful planning, these tools can be incorporated into the framework for new development, ensuring that individuals and families at all income levels benefit from improved access to transit and the other amenities that are offered in these emerging communities of opportunity:

Inclusionary Housing

Inclusionary housing policies and ordinances require or incentivize developers of market-rate homes to set aside a share of units for low- and moderate-income households. These policies are especially useful for promoting affordability around new or redeveloping transit hubs. In exchange for including affordable units, developers commonly receive a density bonus that entitles them to build more units than would ordinarily be allowed on the site.

Tax Increment Financing

Tax increment financing (TIF) funds public improvements within a redevelopment district using the incremental tax revenue generated as property values rise. In the context of transit-oriented development, creation of a TIF district often helps to cover the cost of roads, sewers, bike paths, and other infrastructure needed for new growth around a new or redeveloping transit station. Since these investments often drive up housing costs, some states or localities require that a portion of the TIF proceeds be set aside for the creation or preservation of affordable housing within the TIF district.

Joint Development Agreements

Many communities have long made available underutilized or surplus publicly-owned land for affordable homes.

Joint development agreements with local transit agencies formalize this process for transit-oriented development, helping to create opportunities for affordable housing near transit stations while building in increased ridership.

Land Banks

Land banks can assemble strategic parcels of land for affordable housing near proposed transit stations or areas slated for redevelopment. These entities acquire and maintain desirable property until it can be sold or transferred and put to productive use. Communities that act early may use a land bank to acquire property around proposed or redeveloping transit stations at a relatively low cost, thereby ensuring that developers

of affordable housing can work in the area even after land costs rise.

Shared Equity Homeownership

Shared equity homeownership is an important strategy for ensuring that affordable homeownership opportunities remain available in specific areas—such as within walking distance of planned transit stations—even if home prices increase significantly. This tool works by providing an initial public investment to bring the cost of a home within reach of families in a target income range. A resale formula is used to limit the sale price, making the home affordable to the next family while permitting the seller to realize a share of any home price appreciation.

Implementing the Tools

When applying these tools, communities undertaking the creation or expansion of a public transit system may also wish to consider three guiding principles:

- **Prioritize preservation of affordable rental housing near planned transit stations and existing stations in revitalizing areas.** Hundreds of thousands of affordable unassisted units and subsidized rentals are located within one-half mile of existing public transit stations. Many more affordable units are located near planned stations. Preserving these homes as affordable housing gives low- and moderate-income tenants the opportunity to benefit from transit access and vital services.
- **Ensure that affordability requirements last as long as transit investments.** Transit lines are essentially permanent amenities. Accordingly, communities making major infrastructure investments to develop or expand public transit lines should work to ensure that homes near transit made affordable through subsidy or inclusionary housing strategies remain affordable over the longest-possible time frame—ideally, in perpetuity.
- **Provide opportunities for families at all income levels.** To reach the lowest-income families, the policy tools described above will likely need to be layered or supplemented with additional rental subsidies, such as project-based vouchers and public housing. These programs target very and extremely low-income households, providing federal assistance to bring rents to levels these families can afford.

As more communities pursue equitable and sustainable transit-oriented development, policy innovations and lessons learned will help to pave the way for others.

Rebecca Cohen is a senior research associate and Emily Salomon is a research associate at the Center for Housing Policy. For more information on the tools mentioned above, visit www.HousingPolicy.org.

The above was adapted from piece originally published in Shelterforce magazine. The original is at:

www.shelterforce.org/article/2109/building_in_affordability